

KAZAKHSTAN

Recent developments

Table 1 2018

Population, million	18.2
GDP, current US\$ billion	164.3
GDP per capita, current US\$	9036
International poverty rate (\$ 19) ^a	0.0
Lower middle-income poverty rate (\$3.2) ^a	0.4
Upper middle-income poverty rate (\$5.5) ^a	8.6
Gini index ^a	27.5
School enrollment, primary (% gross) ^b	109.0
Life expectancy at birth, years ^b	72.3

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2017), 2011 PPPs.

(b) Most recent WDI value (2016).

The economy grew by 4.1 percent in 2018 benefiting from higher oil exports and strong private consumption. Poverty is estimated to have fallen to 7.4 percent.

Economic growth is projected to decelerate going forward as oil production levels off. Private consumption, fueled by income tax cuts and a minimum wage increase, is expected to drive growth and support modest poverty reduction.

The challenges to faster growth, however, are significant given Kazakhstan's over-reliance on oil and structural bottlenecks that constrain private sector development.

Real GDP expanded by 4.1 percent in 2018 on the back of stronger exports and recovering domestic demand. Net exports continued to contribute substantially to GDP due to stronger-than-expected production from the ashagan oil field. But the impetus appears to be diminishing as production flattens. Private consumption rose by an estimated 4.5 percent, benefiting from rising incomes and moderating inflation. Higher oil prices supported a rise in profits in the extractive industries, which contributed to a 3 percent increase in overall investment. On the supply side, the domestic, non-export manufacturing and services sectors continued to be the main engines of growth; the contribution of mining was slightly lower compared to previous years. Higher oil prices and robust foreign demand have made a sizeable dent in the current account, which turned to a surplus of 0.5 percent of GDP in 2018 (from a deficit of 3.3 percent of GDP in 2017). On the capital account, net outflows of portfolio investment offset higher inflows of foreign direct investment (up by 9.8 percent) and Eurobond proceeds. Net international reserves stood at \$30.9 billion (18.1 percent of GDP) in 2018.

Budget spending growth was moderate in nominal terms and slightly negative adjusted for inflation, in line with the government's consolidation and deficit reduction commitment. The completion of major infrastructure projects in 2018, and the removal of one-off large banking sector

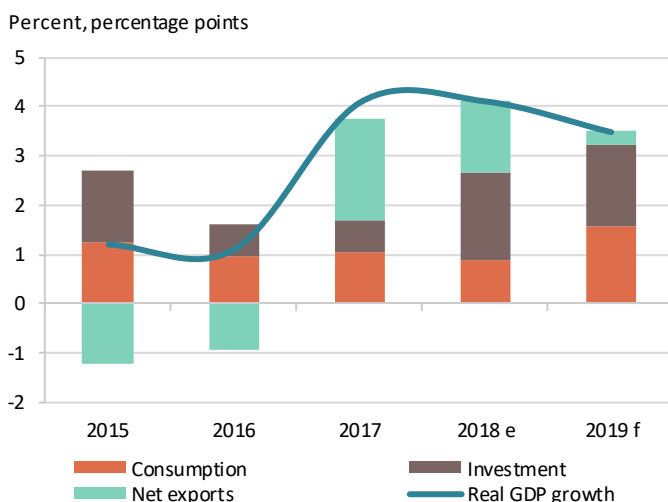
bail-out packages in 2017, contributed to the moderation in spending. On the revenue side, corporate income tax and value added tax—which account for two-thirds of fiscal tax revenue—increased by a combined 16.2 percent in 2018. The overall fiscal deficit is estimated at 0.6 percent of GDP (down from 4.6 percent in 2017), while the non-oil fiscal deficit is estimated to have narrowed to 6.8 percent of GDP in 2018 (from 12.8 percent a year earlier). Public debt inched up to an estimated 21.1 percent of GDP (from 20.1 in 2017).

The banking sector remains fragile. There is considerable uncertainty over the actual scale of nonperforming loans in the absence of an asset quality review of banks. Although retail credit bounced back recently, corporate lending shows no sign of recovery. The National Bank of Kazakhstan's (NBK) effectiveness as an independent regulator may have been further compromised by becoming a shareholder in a state-owned company and the sole bondholder of the Problem Loan Fund.

Annual inflation fell to 5.3 percent in December 2018 from 7.1 percent at end-2017. In response to a depreciation of the tenge, the NBK raised the policy interest rate in mid-October; together with stagnant credit to the economy, this dampened inflationary expectations.

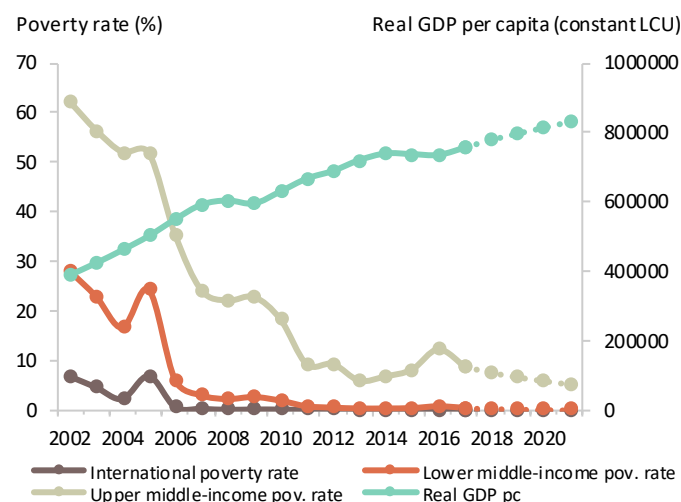
Against the backdrop of buoyant economic activity and labor market improvements, the poverty rate (using the \$5.5/day international poverty line) is estimated to have declined to 7.4 percent in 2018 from 8.6 percent in 2017, marking the second consecutive year in which poverty has fallen since its peak in 2016.

FIGURE 1 Kazakhstan / Real GDP growth and contributions to real GDP growth



Sources: Statistical Office of Kazakhstan; World Bank staff estimates.

FIGURE 2 Kazakhstan / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see table 2.

Economic growth has contributed positively to labor market outcomes. The reported increase in real wages in 2018 is expected to continue in 2019 following a significant increase in the national minimum wage in early January. The headline unemployment rate hovers at about 5 percent.

The President replaced his cabinet on February 25 in response to complaints by certain segments of the population over the lack of inclusive growth.

Outlook

GDP growth is projected to decelerate slightly in 2019–20 and flatten thereafter. The outlook reflects slow productivity growth and the underlying structural weaknesses of the economy, including market dominance by SOEs, unequal regulatory treatment of enterprises, and a low level of competition. Decelerating economic growth in Kazakhstan's main trading partners—particularly China, the European Union, and the Russian Federation—is also forecast to dampen growth in 2019.

Boosted by rising real wages, consumer spending will continue to drive economic activity, though to a lesser extent

than in previous years. Government initiatives to provide subsidized mortgage and car purchase loans will also support private consumption. A weaker non-oil fiscal deficit is expected to decline further in line with the government's medium-term fiscal consolidation strategy. Assuming that prices, oil demand, and oil and mining profit repatriation remain stable, the current account will be roughly balanced in the forecast period.

The NBK is expected to raise the key policy rate to counter inflationary pressures from real wage growth, thereby keeping inflation within the 2019 target range.

The tax cut for low income earners and the 50 percent increase in the minimum wage in January 2019, along with a tight labor market, are expected to stabilize the poverty rate at around 5 percent by 2021. However, a significant share of the population is close to the poverty line and therefore will remain vulnerable to economic shocks.

The government's concerted efforts to combat corruption, modernize the judiciary, and reduce the share of state activity in the economy need to be executed more decisively. These efforts will be even more critical as the country approaches a period of political transition that could be disruptive to the economy.

Risks and challenges

As a commodity exporter, Kazakhstan faces many risks. The forecast could come under pressure if external conditions deteriorate beyond the baseline scenario. Three main risks face the Kazakh economy. First, new sanctions on Russia (by the European Union or the United States) could negatively impact Kazakhstan through Russian trade and investment channels and place downward pressure on the value of the tenge. Coupled with rising domestic price pressures—spurred by higher real wages following the minimum wage increase—this would require a more aggressive tightening of monetary policy.

Second, greater trade protectionism and a deeper-than-expected slowdown in Kazakhstan's trading partners would adversely affect demand for exports, slowing GDP growth.

Third, rising uncertainty surrounding a possible political transition in the coming years may slow the progress of planned economic reforms, adversely impacting private investment, both domestic and foreign.

TABLE 2 Kazakhstan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	1.1	4.0	4.1	3.5	3.2	3.2
Private Consumption	1.2	1.5	4.5	4.0	3.7	3.4
Government Consumption	2.4	-2.5	-3.1	1.3	-0.4	1.4
Gross Fixed Capital Investment	3.0	6.2	3.0	3.2	3.4	3.3
Exports, Goods and Services	-4.4	1.5	6.8	3.4	2.1	2.6
Imports, Goods and Services	-2.2	-6.0	3.1	3.6	3.0	3.2
Real GDP growth, at constant factor prices	1.2	3.8	4.1	3.5	3.2	3.2
Agriculture	5.4	2.8	3.0	3.1	3.3	3.0
Industry	1.2	6.0	4.9	3.2	3.1	3.3
Services	0.9	2.7	3.8	3.7	3.2	3.1
Inflation (Consumer Price Index)	14.6	7.4	5.6	6.1	5.8	5.7
Current Account Balance (% of GDP)	-6.5	-3.3	0.5	0.2	0.2	0.3
Net Foreign Direct Investment (% of GDP)	10.5	6.0	4.0	6.9	6.7	6.5
Fiscal Balance (% of GDP)	-6.4	-4.6	2.0	0.5	0.0	-0.3
Debt (% of GDP)	19.6	20.1	21.1	18.8	17.3	16.5
Primary Balance (% of GDP)	-5.3	-3.7	2.7	1.4	1.0	0.6
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	0.7	0.4	0.4	0.3	0.3	0.3
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	12.2	8.6	7.4	6.6	5.8	5.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2017-HBS. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.

(b) Projection using neutral distribution (2017) with pass-through = 1 based on GDP per capita in constant LCU.